

Message Text

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SUBJ: REVALUATION OF THE BAHT

REF: BANGKOK 22411

1. ON AUGUST 5 THE RTG ANNOUNCED THE REVALUATION OF THE BAHT BY ONE PERCENT (REFTEL). THE REVALUATION WAS BASED ON A COMPLEX SET OF FACTORS FOREMOST OF WHICH WAS THE CONTINUED DECLINE OF THE DOLLAR.

AT THIS TIME, WAS PRECIPITATED BY SPECULATION IN THAI FINANCIAL CIRCLES THAT THE BAHT WAS ABOUT TO BE DEVALUED. ACCORDING TO A BANK OF THAILAND SPOKESMAN, THE BANK HAD TO REACT SWIFTLY AND POSITIVELY TO PREVENT A SPECULATIVE RUN AGAINST THE BAHT.

3. BECAUSE OF THE STILL HEAVY TRADE BALANCE IN THE US'S FAVOR, BANK OF THAILAND OFFICIALS WERE AWARE THAT IF THE BAHT WERE ALLOWED TO FLOAT IT WOULD DROP PRECIPITUOUSLY VIS-A-VIS THE DOLLAR. BUT SINCE OVER 70 PERCENT OF THAILAND'S FOREIGN EXCHANGE TRANSACTIONS ARE CARRIED OUT IN DOLLARS, THE DOLLAR'S CONTINUED DETERIORATION WAS RESPONSIBLE FOR AN INFLATIONARY TREND THAT HAD BECOME
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INTOLERABLE.

4. HAVING TAKEN THE PSYCHOLOGICALLY BIG STEP OF BREAKING THE LINK WITH THE DOLLAR THE RTG BECAME COMMITTED, AS A MATTER OF POLICY, TO SHOWING A MEASURE OF INDEPENDENCE VIS-A-VIS THE DOLLAR. ON THE OTHER HAND, CONSIDERING THE COUNTRY'S BALANCE OF TRADE DEFICIT (DOLLARS 1.2

BILLION IN 1977), THE BANK OF THAILAND WAS RELUCTANT TO CHANGE THE OLD PARITY RATES. THIS STANCE OF COURSE RESULTED IN A DE FACTO DEPRECIATION OF THE BAHT ALONG WITH THE DOLLAR WHICH THE BANK FOUND ACCEPTABLE (WITHIN LIMITS) BUT WAS A MOUNTING SOURCE OF IRRITATION TO IMPORTERS AS WELL AS RTG OFFICIALS CONCERNED WITH PLANNING AND DEVELOPMENT. FOR A WHILE BANK OFFICIALS WERE ABLE TO AVOID CHANGING THE PARITY RATES WITH THE EXCUSE THAT THE DOLLAR'S DECLINE MAY ONLY BE A TEMPORARY PHENOMENON AND THEREFORE CHANGING THE PARITY RATES SHOULD BE DELAYED PENDING THE DEVELOPMENT OF A LONGER TERMED TREND. BY LAST WEEKEND WHEN THE DOLLAR FELL BELOW 190 YEN AND HAD ALSO SUNK TO NEW LOW'S IN EUROPE THE BANK'S WAIT AND SEE POLICY HAD BECOME UNTENABLE.

5. THE DECISION TO REVALUE THE BAHT BY MERELY 1 PERCENT WAS REACHED ONLY AFTER LABORED CONSIDERATION AND HAS ITSELF SPARKED CONSIDERABLE SPECULATION AND CRITICISM. ALTHOUGH SOME CHARGE THAT THE BAHT HAS EFFECTIVELY DEPRECIATED SOME 7-8 PERCENT SINCE THE DECISION TO UNPEG IT FROM THE DOLLAR, A BANK SPOKESMAN ADVISED THAT, BASED ON THEIR BASKET OF CURRENCIES CRITERIA, THE EFFECTIVE DEPRECIATION HAS BEEN ONLY 4-5 PERCENT. OF PRIMARY CONCERN TO THE BANK WAS WHAT EFFECT THE REVALUATION WOULD HAVE ON THAI EXPORTERS. WITH THE EXCEPTION OF SUGAR AND CASSAVA THAI COMMODITIES ARE ENJOYING GOOD LIMITED OFFICIAL USE

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PRICES THIS YEAR. IT WAS CONCLUDED THAT A 1 PERCENT REVALUATION WOULD PRIMARILY AFFECT ONLY THE SUGAR AND CASSAVA EXPORTERS. ALSO, SINCE THIS WAS THE SLACK PERIOD OF THE YEAR IN THE IMPORT OF THAI COMMODITIES, THE TIMING WAS CONSIDERED PROPITIOUS SINCE THE ANNOUNCEMENT WOULD CATCH THE MINIMAL NUMBER OF TRADERS HOLDING DOLLARS. ANY POTENTIAL BENEFIT TO IMPORTERS OF UNWANTED CONSUMER GOODS WAS NEGATED EARLIER BY REGULATIONS BANNING THE IMPOR OF CERTAIN ITEMS AND RAISING TARIFFS ON OTHERS.

6. UNLESS THERE IS ANOTHER PRECIPITATE SLIDE OF THE DOLLAR IT IS UNLIKELY THAT FURTHER CHANGES IN THE PARITY RATES WILL OCCUR UNTIL THE BANK OF THAILAND ALONG WITH THE THAI COMMERCIAL BANKS INSTITUTE A FLEXIBLE EXCHANGE RATE SYSTEM WHICH WILL BE RESPONSIVE (WITHIN A BANK DETERMINED BAND) TO MARKET FORCES. THE CONCERNED OFFICIALS ARE OBVIOUSLY APPROACHING THIS CHANGE-OVER GINGERLY AND WITH MISGIVINGS SINCE IT REPRESENTS A RADICALLY NEW SYSTEM AFTER YEARS OF FIXED EXCHANGE RATES. THE HOPE IS THAT THEY CAN DEVELOP A GENUINE INTERNATIONAL MONEY MARKET HERE IN THAILAND WHICH WOULD "TREAT GENTLY WITH THE BAHT".

7. THERE HAS BEEN, TO DATE, NO TURBULENCE IN THE FINANCIAL EXCHANGES FOLLOWING THE ANNOUNCEMENT. THE ONLY EFFECT THUS FAR NOTED IS A DOUBLING OF THE FORWARD COVER PREMIUM FROM 2-5 SATANG (100 SATANG EQUAL 1 BAHT). THIS CAN BE DUE TO CONTINUING UNEASE ABOUT THE FUTURE OF THE BAHT. THE BANK HOPES, HOWEVER, THAT IT IS AN INDICATION OF A TRUE FORWARD EXCHANGE MARKET TAKING SHAPE. ABRAMOWITZ

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